Reimbursement or indemnity?

Help clients understand which LTC solutions meet their needs

When advising clients on a long-term care solution, it's important that they understand the distinctions between reimbursement and indemnity policies. There are big differences with how each plan can impact their care.

The basic differences

Reimbursement policy
The insurance provider will reimburse policyholders for qualified long-term care expenses incurred monthly. With direct billing, care providers can bill the insurance company directly or receipts can be submitted.

Indemnity policy
The insurance provider sends a monthly payment to the policyholder, whether care is provided or not. The policyholder then pays care providers.

Who is making the long-term care decision?

When setting up a long-term care plan, clients need to be reminded of an essential truth — it is likely that by the time their LTC plan is enacted, they will no longer be the ones making decisions. At a point when they are at their most vulnerable, others will be making choices about their daily care and living arrangements. Establishing who handles finances and coordinates care is a priority, but so too is developing a plan that reduces stress on those involved. Reimbursement plans allow care managers to focus on offering comfort and support, while reducing the stress of managing care.

Ask your clients ... Would you rather:

Let a trusted partner supervise claims, so quality time can be spent with loved ones?

Or be responsible for keeping track of dollar amounts and due dates?

Insurance products issued by:
The Lincoln National Life Insurance Company

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Five key considerations

1. **Tax-filing requirements**

- No tax-filings are required for reimbursement benefits. Caregivers do not need to report reimbursements to the IRS.
- Receiving indemnity benefits requires the policyholder to file IRS Tax Form 8853. Any exclusions are limited to the IRS per diem limit for that tax year. As a result, there may be taxable income to report.

INDEMNITY PLANS AND THE IRS

With an indemnity plan, paying an informal caregiver more than $2,700 annually (2024 IRS limit) turns the insured into an employer, who is subject to all the complexities of tracking and reporting compensation, including paying taxes for Social Security and Medicare. The national average of home health care is $78,000 per year.[1]

2. **IRS per diem limit**

- Reimbursement plan benefits are reported to the IRS, but are not subject to the IRS per diem limits. Benefits may exceed this limit with no tax consequences.
- Indemnity policies are subject to IRS per diem limits.

The 2024 IRS per diem limit is $410.

3. **Bill payor or care manager**

- Lincoln's reimbursement policies offer a direct billing system, which simplifies financial management. It is similar to the system used by most healthcare insurance plans, so many individuals are familiar with the process. Loved ones who are care managers or caretakers only need to supervise claims.
- Indemnity plans send direct compensation. Those who are also providing care are required to track payments and pay bills for care provided.

4. **Quality of care**

- With Lincoln reimbursement policies, compensation is typically paid directly to healthcare providers. Clients receive necessary, qualified care, reducing stress on their families.
- Since indemnity plans require those providing care to track payments, it places the burden of care management on the compensation recipient and may affect the quality of life for the caregiver.

5. **Potential for fraud**

- Lincoln's reimbursement policies offer accountability to help ensure that funds designated are preserved for appropriate LTC services that meet the intent of the policyholder. Reimbursement gives clients additional peace of mind at a time when they may be at their most vulnerable.
- Indemnity plans generally do not contain restrictions regarding how benefits are applied, which means funds set aside to cover LTC costs could be used for purposes other than intended and may create an increased risk of fraudulent transactions.

[1] LTCG, "2019 Lincoln Financial Cost of Care Survey," March 2020, www.whatcarecosts.com/lincoln. For a printed copy, call 877-ASK-LINCOLN.

Lincoln's reimbursement process

Lincoln *MoneyGuard*® solutions reimburse policyholders for expenses incurred monthly. Any unused dollars stay available in the policy and will extend the length of time the client can use benefits.

DID YOU KNOW?

A common misconception is that reimbursement policies require care managers to pay out of pocket. This is not accurate. At Lincoln, once direct billing is established, our reimbursement policies can pay providers directly.

Policyholder needs to go on claim → **Qualifies for benefits** → **Lincoln sets up direct billing** → **Care provider bills Lincoln for services** → **Lincoln pays provider for qualified expenses**

Experience the Lincoln *MoneyGuard* difference

With over 30 years of experience, Lincoln *MoneyGuard* is a leader in the hybrid long-term care space.[1] Our experience in the reimbursement process delivers an additional layer of security, integrity, and trust to those we serve.

Why choose Lincoln *MoneyGuard* solutions:

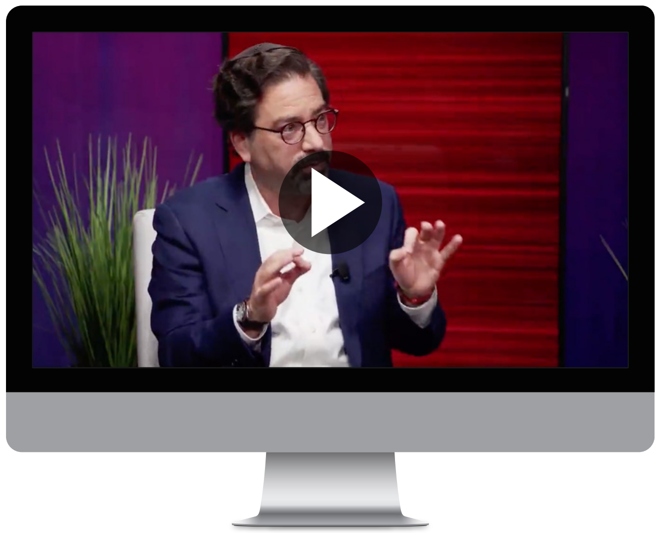
- 0-day elimination period — Immediate access to benefits, once qualified.
- Flex Care Cash[2] — In addition to reimbursement benefits, policyholders have the flexibility to access cash for informal needs.
- Direct billing — No need to pay out of pocket, let Lincoln take care of paying the bill.
- No tax filing — Reimbursement benefits allow for more time with loved ones, not concerned about tax consequences with reimbursement benefits.
- Funds used as intended — Get the care the client prefers.

[1] LIMRA, "2021 U.S. Individual Combination Sales Report." Information represents multiple versions of Lincoln *MoneyGuard*®.

[2] Flex Care Cash benefits have same tax and filing requirements as indemnity policies.

Hear from a professor, fintech entrepreneur and author

Moshe Milevsky's thoughts on reimbursement vs. indemnity



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